

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01 /087 W
-----096996 081112Z /12

P R 080945Z DEC 77
FM AMEMBASSY COPENHAGEN
TO SECSTATE WASHDC PRIORITY 5557
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY HELSINKI
AMEMBASSY LONDON
AMEMBASSY LUCEMBOURG
AMEMBASSY OSLO
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM

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USEEC ALSO FOR EMBASSY

E.O.: 11652: N/A
TAGS: EFIN, DA, EC
SUBJ: SNAKE COOPERATION RE-AFFIRMED

1. DENMARK'S SECOND LARGEST COMMERCIAL BANK, THE COPENHAGEN
HANDELSBANK, HAS FOR SEVERAL MONTHS CONDUCTED AN ACTIVE CAM-
PAIGN IN FAVOR OF DENMARK DEPARTING FROM THE EUROPEAN NARROW-
MARGIN MONETARY COOPERATION (THE SNAKE) AND TYING THE DANISH
KRONE RATE INSTEAD TO A BASKET OF CURRENCIES IN THE MANNER
USED, FOR INSTANCE, BY SWEDEN. THIS MAJOR COMMERCIAL BANK FEELS
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THAT THE TYING OF THE DANISH KRONE TO THE DEUTSCHMARK PUTS THE
COUNTRY IN A PRECARIOUS POSITION BECAUSE A) THE BUILT-IN REVALU-
ATION MECHANISM OF THE SNAKE LEADS TO A FURTHER WEAKENING OF
DENMARK'S COMPETITIVE POSITION IN RELATION TO NON-SNAKE COUNTRIES,
AND B) THE ACCEPTED POLICY OF SMALL BUT FREQUENT EXCHANGE RATE
ADJUSTMENTS DOES NOT PREVENT RECURRENCE OF CURRENCY CRISES.

2. IT SHOULD BE NOTED THAT THE HANDELSBANK'S OPPOSITION TO DENMARK'S CONTINUED PARTICIPATION IN THE SNAKE IS SHARED NEITHER BY OTHER MAJOR BANKS, NOR BY INDUSTRIAL OR AGRICULTURAL ORGANIZATIONS. FURTHERMORE, IT IS A CLEAR CHALLENGE OF THE OFFICIAL GOVERNMENT POLICY.

3. THIS DISAGREEMENT WAS SHARPLY HIGHLIGHTED AT THE ANNUAL COMMERCIAL BANK ASSOCIATION MEETING DECEMBER 6, WHERE ECONOMICS MINISTER PER HAEKKERUP AS GUEST SPEAKER THUNDERED AGAINST ANY IDEA OF DANISH DEVALUATION. HAEKKERUP IN THE STRONGEST POSSIBLE TERMS RE-AFFIRMED DANISH FAITH IN THE SNAKE COOPERATION AND DANISH DETERMINATION NOT TO DEVALUE THE KRONE. HAEKKERUP SARCASTICALLY ASSUMED THAT EVERYBODY STILL AGREED THAT THE DANISH EXCHANGE RATE POLICY SHOULD BE DETERMINED BY THE GOVERNMENT, CENTRAL BANK, AND PARLIAMENT, AND NOT BY "SOME INCIDENTAL PRIVATE BANK". HAEKKERUP'S POLICY STATEMENT IMMEDIATELY AFTERWARDS WAS ENDORSED UNEQUIVOCALLY BY NATIONALBANK GOVERNOR ERIK HOFFMEYER.

4. ONE OF HAEKKERUP'S ARGUMENTS AGAINST DEVALUATION WAS THAT IT WOULD RUIN PRESENT DANISH ATTEMPTS AT A DEFLATIONARY POLICY AND DESTROY THE SOCIAL CONTRACT IMPOSED UPON LABOR. THIS WAS CONFIRMED BY TRADE UNION COUNCIL (LO) CHAIRMAN THOMAS NIELSEN WHO SHARPLY REJECTED DEVALUATION AND THE RESULTANT DECLINE IN REAL WAGES.

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5. HAEKKERUP'S BARRAGE AGAINST THE HANDELSBANK AND ANY OTHER ATTACKERS OF THE SNAKE COOPERATION COINCIDED WITH THE EUROPEAN COUNCIL MEETING IN BRUSSELS DECEMBER 5-6, IN WHICH PRIME MINISTER ANKER JORGENSEN PARTICIPATED IN A PLEDGE OF NATIONAL ECONOMIC DISCIPLINE AND AVOIDANCE OF A BEGGAR-THY-NEIGHBOR POLICIES, WHICH CLEARLY CONDEMNED COMPETITIVE DEVALUATIONS.

6. DURING THE LAST FEW DAYS, SOME PRESSURE ON THE DANISH KRONE DEVELOPED, MOSTLY AS A REFLECTION OF THE DEUTSCHMARK/DOLLAR RELATIONSHIP, BUT PROBABLY ALSO HELPED BY THE HANDELSBANK CAMPAIGN. THE NATIONALBANK HAS HAD TO INTERVENE VERY ACTIVELY IN THE MARKET IN ORDER TO KEEP THE DANISH KRONE WITHIN THE SNAKE MARGIN. FORTUNATELY, IT IS IN A GOOD POSITION TO DO SO BECAUSE OF PRESENT RATHER AMPLE FOREIGN EXCHANGE RESERVES. THE MARKET TODAY DECEMBER 7 SHOWED DEFINITE RELAXATION, HOWEVER.

7. EMBASSY COMMENT: IN RECENT PRIVATE TALKS THE AMBASSADOR HAD WITH THE BANK ASSOCIATION CHAIRMAN, S. O. SORENSEN, AND FINANCE MINISTRY UNDER SECRETARY ERLING JORGENSEN, BOTH RE-AFFIRMED DANISH ADHERENCE TO THE SNAKE POLICY, WHICH BOTH INDICATED WAS MOTIVATED BY MORE THAN FINANCIAL REASONS. BOTH ALSO EMPHASIZED THE DISCIPLINE WHICH THE SNAKE COOPERATION IMPOSES UPON DANISH

ECONOMIC POLICY. IN THIS CONNECTION THE UNDER SECRETARY PROMISED
THE AMBASSADOR THAT WE WOULD BE FIRST TO BE ADVISED IN ADVANCE
SHOULD ANY CHANGE IN THE ESTABLISHED DANISH POLICY EVER BE
CONSIDERED. DEAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BANKS
Control Number: n/a
Copy: SINGLE
Sent Date: 08-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977COPENH07268
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770456-0485
Format: TEL
From: COPENHAGEN USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771279/aaaacozt.tel
Line Count: 120
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6c8cb708-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 14-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 313554
Secure: OPEN
Status: NATIVE
Subject: SNAKE COOPERATION RE-AFFIRMED
TAGS: EFIN, DA, EC
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/6c8cb708-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009